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C O N F I D E N T I A L SECTION 01 OF 02 NICOSIA 000277

SIPDIS

TREASURY FOR FINCEN AND OFFICE OF TERRORIST FINANCING

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TAGS: [EFIN](#) [PTER](#) [CY](#)

SUBJECT: NORTHERN CYPRUS: PROGRESS SLOW BUT STEADY ON AML

Classified By: DCM J COHEN FOR REASONS 1.4 B AND D

¶1. (U) At the last Financial Action Task Force (FATF) plenary held in Paris 25-27 February, the northern part of Cyprus was deleted from the list of areas of concern for money laundering activity. This was in response to the north Cyprus "administration" having completed a series of legislative and administrative reforms as specified in the October 2007 action plan for FATF which the EU had prepared with north Cyprus and helped them to implement.

¶2. (SBU) Subsequent to the last FATF plenary, many nations' anti-money laundering authorities (including the UK and Germany) have issued updated circulars to their banking sectors indicating that "the northern part of Cyprus is no longer highlighted as a jurisdiction of concern, following improvements made to its AML/CTF regime." Following is updated information to help Treasury FinCEN in its determination of whether a de-monitoring advisory is warranted.

Standardization of On-Shore and Offshore Oversight  
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¶3. (C) Under the new "legislation", all offshore banking activities have been brought under the purview of the "Central Bank." Offshore banks must comply with the AML legislation, including having on-site compliance officers. Training of such officers remains incomplete and the "Central Bank" reportedly has not added staff or determined how to utilize its assets to monitor the activities of the 14 offshore banks in addition to the 16 onshore banks. Our contacts at the Turkish Cypriot "Financial Intelligence Unit" (Financial Data and Information Acquiring Unit, "MEBEB") tell us that they are now receiving suspicious transaction reports (STRs) from offshore banks. The "Central Bank" and "MEBEB" have been given the power through legislation to exact fines and bring criminal penalties against institutions that do not comply with the AML legislation.

"FIU Development"  
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¶4. (C) MEBEB now has eight full-time employees who have received training from EU, UK and US Treasury experts on issues ranging from document examination, forensic accounting, and how to build a case. The training involved hands-on, day-to-day interaction with the unit. That said, significant additional training is needed both for MEBEB and for the police and prosecutors who must better understand the new law to assure its proper implementation. USAID and the UK are providing additional training plus hardware and software systems to improve these capabilities. Embassy Nicosia has regular interaction with MEBEB due to two cases involving US citizens suspected of laundering money through northern Cyprus. These cases were identified due to STRs provided to

MEBEB by offshore banks. Cooperation with MEBEB has been excellent although they complain about their inability to interact directly with international law enforcement because of the non-recognition of the "TRNC" and its agencies.

#### SWIFT Transactions

15. (SBU) Because northern Cyprus is not considered a legal entity separate from the Republic of Cyprus, it does not have its own SWIFT codes. Banks in this jurisdiction use SWIFT codes of their Turkish correspondent banks. The "Central Bank" and MEBEB are therefore entirely dependent on Turkish AML authorities to monitor SWIFT transactions.

#### Casinos

16. (SBU) The new law regulating casinos was only passed in February 2009; it is therefore too soon to determine the effectiveness of the legislation. We can confirm that casinos are now requiring all their customers to show an ID card which is entered into a database before they may gamble. Each casino is also required to have a compliance officer, but these individuals have not yet received any training, although such training is planned.

#### STR Statistics

17. (C) MEBEB and the Turkish Cypriot Banker's Association, assisted by the EU and USAID, have been working on training

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compliance officers across industries, including non-financial units such as real estate brokers and car dealers. MEBEB's website (kktcparakambiyo.com) includes links to the relevant legislation, FATF's website, and information about compliance.

18. (SBU) STR reporting statistics:

2006 11 reports

2007 88 reports

2008 89 reports

2009 (through April 14) 19 reports o/w 2 offshore

Four cases are currently in the courts. No judgments have been rendered.

19. (C) Comment. The strides made by the Turkish Cypriots in bringing their "legislation" closer to international standards and applying the new laws have been significant. Bankers we speak with take seriously their responsibility to report suspicious activities and MEBEB works effectively to follow-up on these reports in a timely manner. However, the level of expertise remains low and much more training and awareness raising is needed, especially in the non-financial sectors. More resources are needed at both the Central Bank and MEBEB to properly monitor and investigate suspicious activity. With the April 19 elections, a new political party controls the "parliament" and will likely replace the senior people at MEBEB and the Ministry of Finance who have been our biggest AML allies. We will work with the UK High Commission and the Banker's Association to quickly impress on the new leadership the importance of maintaining momentum and preventing any backsliding.

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